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FINANCIAL PLANNING FOR PEOPLE-OWNED ENTERPRISES

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9 October 1950

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Record of Conference in the Ministry of Finance of the German Democratic Republic, held on 28 April 1950.

Concerning: Measures for Carrying out of the Financial Plan of the People-Owned Enterprises during the First Quarter of 1950.

Attending: Rumpf, Secretary of State in the Ministry of Finance
 Eisenklam, Ministry of Industry, Department of Finance and Economy of the People-Owned Enterprises
 Boge, Ministry of Industry, Department of Finance and Economy of the People-Owned Enterprises
 Grimm, Secretariat of the Ministry of Industry
 Zibat, Ministry of Industry, Main Department for Metallurgy
 Luckner, Ministry of Industry, Main Department for Machine Construction
 Hamacher, Ministry of Industry, Main Department for Machine Construction
 Zilinski, Central German Finance Administration
 Schroeder, Central German Finance Administration
 Dr. Lange, Ministry of Finance, Main Department 7
 Pauligk, Ministry of Finance, Main Department 2
 Dr. Rademacher, German Bank of Issue
 Anders, German Bank of Issue
 Ziegenhagen, German Bank of Issue
 Lehmann, German Investment Bank

The conference stated that the 1949 million Deutsche marks for the first quarter of 1950 did not represent a fulfillment of the finance plans for the people-owned industries in the Soviet Zone of Occupation.

The attempt to include so-called overpayments from 1949 - overpayments in corporation taxes and profit deductions - in calculating the payments for the first quarter of 1950, before the balances of the individual Federations have been confirmed, is not permissible and is illegal.

The members of the conference agree that measures must be taken immediately to ensure the regular receipt of profits and corporation

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taxes. It was established that on 10 February 1950 the Central Finance Administration, in agreement with the Ministries of Finance and Industry, ordered the Federations of People-Owned Enterprises to continue paying at the 1949 rate until the 1950 plans have been confirmed.

This order from the Central Finance Administration has, however, not been observed.

On 29 April 1950, the Central Finance Administration will supply all data on the planned payments and their fulfillment for the first quarter of 1950, arranged by Main Departments and by Federations. The Ministry of Industry will propose to the Ministry of Finance the concrete measures to be taken for each individual Federation to ensure the delayed payment of the planned amounts. The German Bank of Issue has been ordered to report on 4 May 1950 the amount of credit used by each Federation (not including seasonal credit requirements and credits for transferred claims), indicating the current item number in the guide plan.

The Ministry of Industry will immediately issue a directive to all Federations stating that:

Adjustments for overpayments, or payments made to the debit of the directors' discretionary fund during 1949, may not be made until after the verification of the closing balance sheet of 1949. According to the request of the Central Finance Administration of 24 March 1950, the Federations are immediately to turn over corporation taxes and profits as computed from the over-all plans issued to the Federations.

Berlin, 28 April 1950

7 signatures

Structure of the Five-Year Finance Plan

In order to prevent a repetition of the catastrophic consequences of the lack of planning in the nationalized economy, a plan was made up for 1950 which is to eliminate the shortcomings. At present there is still no financial plan, so that it cannot be stated how much money

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will be at the disposal of the nationalized economy, with the result that it is always necessary to operate with a budget deficit.

Because of the production difficulties and financial difficulties, which have even led to the shutting down of plants (such as Gesko - Main Administration for Coal), it was decided to set up the 1951-1955 financial plan by 1 September 1950, and to submit it to the People's Chamber after approval by the Soviet Control Commission. At the time when the Five-Year Plan goes into effect (2 January 1951), the individual Federations should already be in possession of the production and finance plan for 1951.

The actual conditions are as follows: The Ministry of Planning will make up a plan to cover five years, while the Ministry of Finance will make up a plan covering only one year, on the basis of the production scheduled for that particular year. The finance plan for 1951 will be based on the results up to 30 June 1950, that is, those shown by the closing balance and financial statements of 30 June 1950. These results, assuming normal development, should approximate the first six months of the 1950 finance plan.

In order to arrive at a reasonable and correct basis for the 1951 finance plan (actual results 1 January 1950 - 30 June 1950), the detailed finance plans for 1950 are only now being set up in final form. For this purpose, the prices valid during the fourth quarter of 1949 are declared to be the legal prices, and are no longer the legal prices for 1950. No other prices are to be used for the plan itself, since these are, at the same time, the basic prices for the Five-Year Plan (Index 100). [Note: There is either an omission or a garbled sentence in the above paragraph.]

The finance planning for 1950 is based on the balances and the final accounting as of 31 December 1949, i.e. without taking into consideration any changes in the economic or legal conditions which might have occurred during 1950.

According to this, the Finance Ministry has suggested the following method for computing output, costs and profits (the Ministry of

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Industry is fighting these suggestions with all its might and does not accept the finance plan of the Ministry of Finance):

Output:

Results as of 31 December 1949

I B 1

I B 2

I B 4

I A 10

I A 12

Output 1949 x per cent of production increase

Costs:

I A 1 - 9

I B 3

I B 5

I A 12

II B 7b

II B 7 c

II A 5

Costs 1949 x production increase less required reduction of overhead = Costs 1950.

Profit: Output 1950 minus costs 1950 plus directors' discretionary fund = Profit 1950.

Note: The importance of this scheme is shown in the over-all finance plan.

The finance plan of the Five-Year Plan is based on the same computations. If detailed explanations are required, they can be furnished.

Note: The entire accounting system of the people-owned economy was to be reorganised on the Soviet model, starting the middle of this year, with a deadline of 1 January 1951. This deadline had to be changed to 30 June 1951, because there is a tremendous shortage of trained personnel.

Appendix:

Setting up of detailed finance plans:

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In November 1949 the individual Federations of the people-owned economy had to submit rough finance plans to the Main Departments of the Ministry of Industry. The Ministry of Industry, after studying these plans, turned them over to the Ministry of Finance for further study, and this authority, in turn, submitted them to the Soviet Control Commission for approval. After various changes made by the Soviet Control Commission (especially the increase in the planned profits) the over-all finance plans were made up and incorporated in the budget.

These plans, as made up by the Main Departments, were again turned over to the individual Federations, with orders to set up a detailed finance plan on the basis of their economic development during 1949. These plans are then to be routed in the same manner as the rough finance plans and then studied by the Ministry of Finance, where they are to be fitted into the framework of the over-all finance plan.

Prices 1950 (Ceiling prices 1944).

A conference was held at the Finance Ministry 5 - 7 May on the new price control regulations for the people-owned economy in the Soviet Zone. The leading personages of the Ministries of Planning and of Finance attended, with State Secretary Rumpf of the Ministry of Finance as chairman. The conference resulted in the following decisions:

The prices in effect during the last quarter of 1949 are the legal fixed prices for the people-owned economy, as of 7 May 1950. This will be made law shortly, by repeal of all price regulations to the contrary. This measure was not taken because of the economic consequences of price increases during the last five months (mainly increases in the price of coal, fuels, and rolling-mill products), but primarily because the prices effective during the last quarter of 1949 have been made the plan prices. These plan prices are the absolute basis of Soviet-Socialist economy, and the basis of the Five-Year Plan of the Soviet Zone (1951-55). Thus, the people-owned

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economy of the Soviet Zone is completely abandoning the basis of the 1944 ceiling prices.

In detail, the following decisions were made:

The prices effective during the last quarter of 1949 are

- a) the ceiling prices now in effect
- b) the plan prices for finance planning for the Five-Year Plan, as Rumpf put it, "for the next thirty years", with the price index of 100.

If the statement is made that the effective prices of the last quarter of 1949 are now the new fixed prices, it appears at first glance that the basis of the ceiling prices of 1944 has been dropped altogether. These new prices, however, apply only to the people-owned economy, and, actually the ceiling basis had in general not been abandoned in the effective prices paid during the last quarter of 1949. Only in a few cases, where the people-owned economy has been charging higher, i.e. illegal, prices, these illegal prices have now been given official sanction.

This has the following consequences:

1) All price increases or price reductions which, ^{have} become effective in the people-owned economy ^{since} ~~after~~ 31 December 1949, i.e. all price regulations contrary to the above regulations, are null and void.

2) Where increased prices which do not correspond to the economic conditions are being charged, these prices will not be lowered, but the additional profits will be turned over to the budget of the German Democratic Republic in the form of corporation taxes and profits.

These new regulations do not apply to private enterprises of the same nature. For these enterprises, the 1944 ceiling prices will continue to be in effect. Their additional profits will be drawn off in the form of a modified turnover tax or excess profits tax, or similar taxes. Private enterprise, since it charges lower prices, still has a greater sales volume than the people-owned enterprises, whose sales volume is decreasing. Private enterprise is to be fought and cut down more than before by the introduction of new turnover taxes.

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Plan prices: Plan prices of this kind have never been available before for the Soviet Zone planned economy. While plan prices or plan figures were used in some fields of ^{the} people-owned economy (e.g., production quotas, planned values for overall production), these were highly imaginary values, and not a single official of the Ministries of Planning, or Finance, or Industry, could either explain them or compute them. These values were arrived at by a very complicated and equally vague method. As a result, none of these plan values had the slightest sensible relation to the actual conditions. If the same plan value was to be determined by a number of offices, the VVN received an equal number of different figures. The present plan prices (effective prices of the last quarter of 1949) are thus not plan prices as known in the socialist theory of planned economy, where plan prices are computed by a complicated method and are variable. The plan prices are to be operated in practice in such a way that they remain constant, in principle; ~~while~~ only in the most urgent and exceptional cases can the plan prices be raised by the People's Chamber when it approves the finance plan. (Example: 12 December 1952: Vote by the People's Chamber on the 1953 Finance Plan, and simultaneous vote on the raising of coal prices from an index of 100 to 120.)

These new regulations, the Ministry of Finance believes, will become valid after having been approved by the cabinet of the German Democratic Republic. The Ministry of Industry is bitterly opposed to them.

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